ECONOMIC COMMENTARY

Alberta's Building Products Sector is on the Road to Recovery

January 14, 2015

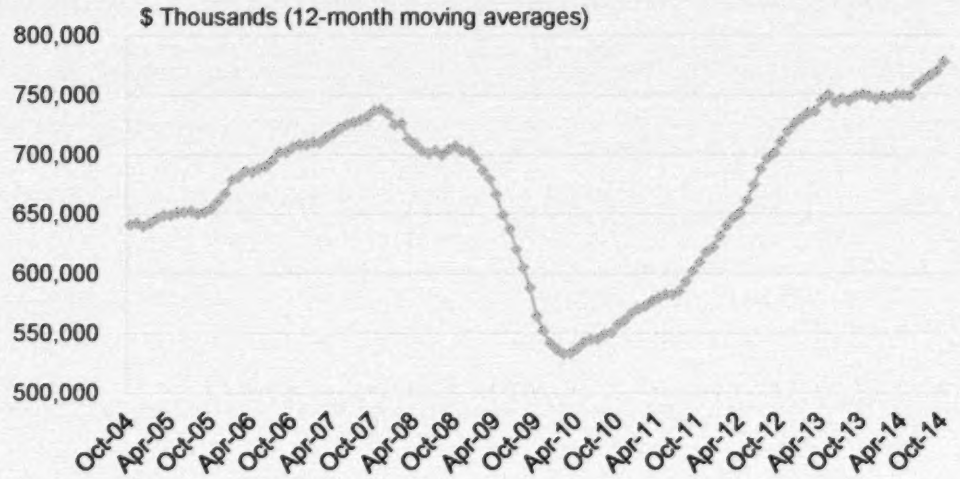
Highlights:

Alberta's building products sector was hit hard by the global economic recession and especially by the US housing crisis that started prior to that. Revenues in this sector have bounced back since then and have now surpassed their pre-crisis high.

Alberta
Government

Alberta's Building Products (BP) sector[1] was one of Alberta's fastest growing sectors until 2007. Sector revenues more than tripled between 1993 and 2007 to reach a high of $8.8 billion that year. However, revenues fell by 26% between 2007 and 2009 driven by sharp losses for lumber, oriented strand board (OSB) and cement as the BP sector was hard-hit by the global economic crisis and the weak US housing market. Revenues have rebounded strongly since 2009 and reached a record $9.0 billion in 2013 as both prices and volumes were very strong that year. Revenues remained relatively flat between early 2013 and the second quarter of 2014, but the value of shipments has grown strongly since then (Chart 1[2]).

Chart 1
Value of Shipments in Building Products Industry



Source: Statistics Canada

Between 2003 and 2013, the number of employees in the sector increased by about 1,200 to an estimated 33,350. Over the same period, Gross Domestic Product (GDP) of the BP sector increased by 16%, compared with a 27% increase in output for Alberta's manufacturing sector over the same period. GDP for the sector declined sharply by 16% in 2009, but had nearly recovered these losses by 2013.

The industry's largest sub-sectors on a revenue basis are:

- Primary wood products (such as lumber and OSB): $2.3 billion in 2013; down 6% between 2003 and 2013 (peaked in 2004 at $3.0 billion);
- Non-metallic mineral products: $2.3 billion in 2013; 57% increase between 2003 and 2013 (cement constitutes over 70% of sub-sector revenues);

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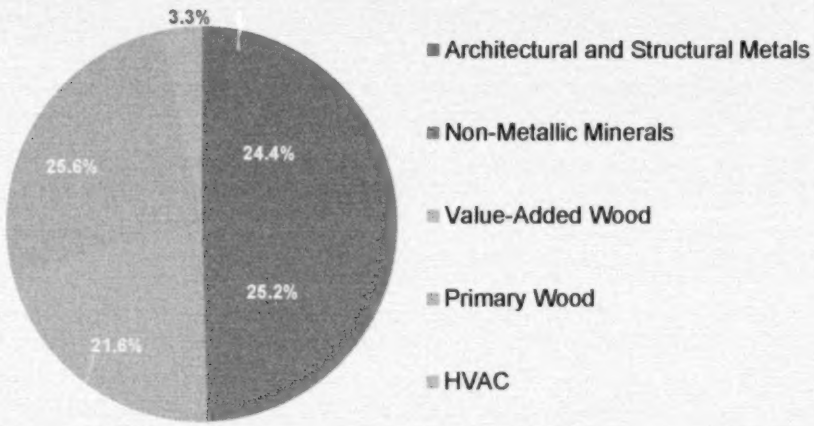
[1] The building products sector includes NAICS industries 321 (wood products), 327 (non-metallic mineral products), 3323 (architectural and structural metals), 3334 (heating, ventilation and air-conditioning equipment) and 337 (furniture and related products)

[2] A 12-month moving average was selected for this chart as revenues for this sector drop off sharply during the winter months

- Architectural and structural metals: $2.2 billion in 2013; nearly doubled between 2003 and 2013;
- Value-added wood products (such as furniture): $1.9 billion in 2013; 24% increase between 2003 and 2013; and
- Heating, ventilation, and air-conditioning equipment (HVAC): $294 million in 2013; 11% decrease between 2003 and 2013.

Chart 2
Revenue Shares in 2013 for Major Sub-Sectors



The BP sector includes about 1,225 businesses with employees, of which only 14% have more than 50 employees. About 86% of the businesses are categorized as being small (fewer than 50 employees).

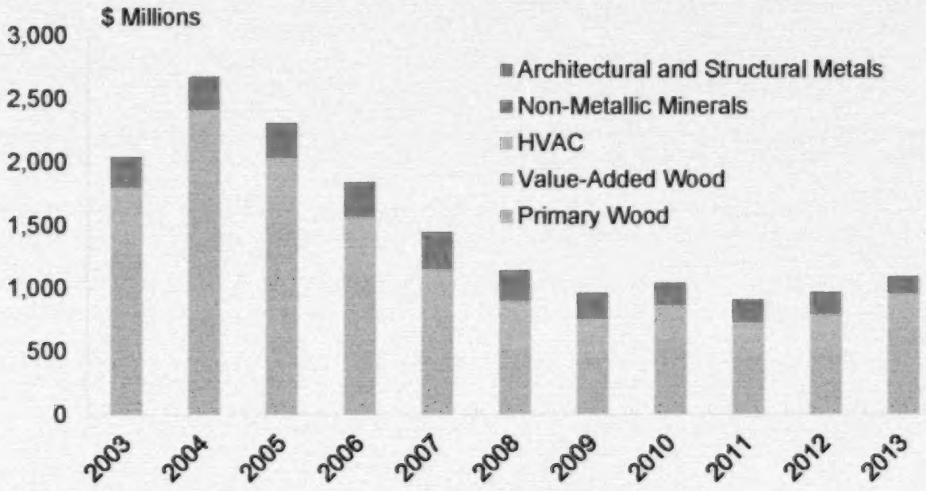
The BP sector's workforce grew by 2,000 between 2003 and 2006 to 34,400, and declined over the next four years because of the US housing crisis and the global recession. Employment in the sector fell by 6,100 between 2006 and 2010, with most of the losses occurring in the primary and value-added wood products sub-sectors. Employment levels have risen strongly since the first half of 2010 and by the third quarter of 2014 they had reached levels that were only slightly less than pre-recession highs.

Close to two-thirds of the sector's output is shipped to customers within the province, mainly in the construction sector, and 20% is shipped to customers in other provinces. Prior to the US housing crisis that started in 2005, about 25% of this sector's production was exported internationally. However, this share has fallen steadily since then to about 12% by 2013 as the number of US housing starts declined from just over two million in 2005 to a post-World War II low of 550,000 in 2009.

International exports of the BP sector reached a high of $2.6 billion in 2004, mostly as a result of very strong growth in exports of primary wood products. The BP industry's exports fell by about two-thirds between 2004 and 2011 to just over $900 million. During that same time, exports to the US, which account for more than 85% of Alberta's BP exports, fell by about the same percentage. International exports of primary wood products, such as lumber and OSB,

fell by 75% because of a similar decline in US housing starts over the same period. In 2013, exports rose 12.8% on a 32% increase in exports of lumber and a doubling of OSB exports. The BP sector's largest export market is the US, with a 90% export share in 2013, followed by Japan at 6%. Although exports to China plummeted in 2013, traditionally it has been Alberta's number three market. In the first nine months of 2014, BP exports were about 30% higher than they were in the same period of 2013 as exports of lumber and OSB to the US continued to rise.

Chart 3
Value of Exports in Building Products Industry



Sources: Statistics Canada and Alberta Innovation and Advanced Education

The BP sector should fare relatively better than many other Alberta sectors over the short term as a result of the surging US economy and especially the expected boom in housing starts in 2015: Moody's Analytics in its latest US outlook is forecasting 1.4 million starts in 2015 up from 1.0 million starts in 2014. The lower Canadian dollar will also be beneficial for the BP sector as it reduces the prices of Alberta products in foreign markets, especially in the US. However, the recent weakening of crude oil prices could lead to a weaker domestic market for building products. If oil prices remain low the Alberta economy may weaken and this may also impact employment and in-migration and therefore also Alberta's housing market.